

Message Text

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ACTION EB-04

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C O N F I D E N T I A L ISLAMABAD 4171

LIMDIS

E.O. 11652: GDS
TAGS: EFIN, PK
SUBJECT: PAKISTAN DEBT RESCHEDULING

REF: STATE 107221

1. IBRD ACTING RES REP (DEN TUINDER) TOLD ECONCOUNS THIS MORNING THAT HE HAD RECEIVED MESSAGE CITING CONSIDERABLE OPPOSITION TO RESCHEDULING AT THIS TIME AND INSTRUCTING HIM TO TRY TO SEEK POSTPONEMENT OF APRIL 29 MEETING WITH CONSORITUM AMBASSADORS UNTIL AFTER HEADS OF DELEGATION MEETING MAY 4. IN ABSENCE OF SECRETARY GENERAL OF FINANCE KAZI, WHO HAS NOT YET RETURNED FROM ADB MEETING, HE CARRIED OUT INSTRUCTION APRIL 26 WITH GHULAM ISHAQ KHAN (CHIEF ADVISOR TO THE MARTIAL LAW ADMINISTRATION), IN MANNER THAT DID NOT IDENTIFY US AS SOURCE OF OPPOSITION. GHULAM ISHAQ TURNED HIM DOWN ON GROUNDS THAT (1) MEETING WIDELY PUBLICIZED AND POSTPONEMENT WOULD RAISE DIFFICULT QUESTIONS, (2) MEETING IS MERELY PART OF A PROCESS IN CARRYING OUT LONG-SINCE ANNOUNCED INTENTION TO SEEK DEBT RESCHEDULING, (3) PAPER FOR MEETING ALREADY PUBLISHED AND BEGINNING TO CIRCULATE, AND (4) REQUEST FOR RESCHEDULING WAS PART OF COMMITMENT MADE TO OPEC COUNTRIES (ESPECIALLY SHAH OF IRAN) AND POSTPONEMENT WOULD BE INCON-
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SISTENT WITH THIS. DEN TUINDER REQUESTED AND GHULAM ISHAQ PROMISED PRESS COVERAGE ABOUT MEETING WOULD BE NEUTRAL AND LOW KEY.

2. PAKISTAN DEBT RESCHEDULING PAPER WILL GIVE TWO OPTIONS
(1) A NEW MULTI-YEAR RESCHEDULING EXERCISE AND (2) PRO-
LOGATION OF EXISTING AGREEMENT FOR ONE YEAR.

3. WHILE COUNTRY TEAM AGREES THAT PAKISTAN DOES NOT NOW MEET US AND GROUP CRITERIA FOR RESCHEDULING, WE BELIEVE THE APPROACH IN REFTEL IS NEEDLESSLY CONFRONTATIONAL AND WOULD INEVITABLY AND SERIOUSLY EXACERBATE EXISTING STRAINS IN US-PAKISTAN RELATIONS. FOR ONE THING, IT IS AWFULLY LATE IN THE GAME TO TRY TO GET THE JUNE 2 MEETING POSTPONED. ALSO, IF WE ARE GOING TO REFUSE THE PAKISTANIS ON THEIR REQUEST WE THINK IT IS BETTER TO OFFER A HOPEFUL ALTERNATIVE WHICH INVOLVES THEM IN THE PROCESS RATHER THAN JUST TELLING THEM TO COME BACK LATER. IN ISLAMABAD 2838, WE RECOMMENDED TELLING THE PAKISTANIS THAT WE ARE PREPARED TO DISCUSS SYMPATHETICALLY THE TOTALITY OF THEIR ECONOMIC SITUATION, EXTERNAL AND INTERNAL, AT THE JUNE CONSORTIUM MEETING. IF THE PAKISTANIS FEEL THAT DEBT RESCHEDULING IS AN APPROPRIATE RESPONSE TO THEIR PROBLEMS -- AND THEY MADE THAT CLEAR LAST NOVEMBER AND DECEMBER -- THEY SHOULD HAVE A CHANCE TO ARGUE THEIR CASE ON JUNE 2. WE WILL HAVE THE OPPORTUNITY AT THAT TIME TO PRESENT OUR CASE AND SET FORTH OUR INTENTIONS. AS WE POINTED OUT IN ISLAMABAD 2838, WE THINK PAKISTAN HAS A LONG TERM CAPITAL INFLOW PROBLEM THAT SHOULD BE DEALT WITH IN THE MANNER SUGGESTED IN GROUP B'S "WISDOM PAPER".

4. WE THEREFORE, REQUEST INSTRUCTIONS, ALONG THE LINES SET FORTH IN ISLAMABAD 2838 THAT AMBASSADOR COULD DELIVER
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AT AN APPROPRIATELY HIGH LEVEL IN THE GOP EITHER BEFORE OR SHORTLY AFTER THE APRIL 29 MEETING. WE HOPE THAT THE INSTRUCTIONS TO OTHER CONSORTIUM COUNTRIES MENTIONED IN REFTEL CAN BE CAST (OR RECAST IF NECESSARY) ALONG THESE LINES. WE ESPECIALLY URGE THAT WE NOT TRY TO GET THE JUNE 2 MEETING POSTPONED. IF UNSUCCESSFUL -- WE FEAR THE EFFORT WILL BE AS FRUITLESS AS WAS THE ATTEMPT TO POSTPONE THE APRIL 29 MEETING -- WE WILL BE ISOLATED AND EXPOSED, WITH DAMAGE TO OUR GENERAL POSITION ON DEBT AND TO OUR BILATERAL RELATIONS WITH PAKISTAN FAR IN EXCESS OF WHAT LITTLE WE MIGHT HOPE TO GAIN FROM A POSTPONEMENT.
HUMMEL

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